STATE BUDGET 2008-09: SPECIAL SESSION

KEEPING CALIFORNIANS IN THEIR HOMES

IMMEDIATE FORECLOSURE RELIEF AND LONG-TERM MORTGAGE REFORM TO HELP STABILIZE CALIFORNIA'S ECONOMY

California was hit hard when the national housing bubble popped, and the foreclosure crisis that ensued continues to negatively affect California's economy, its communities, and our budget. The single most powerful action the state can take to shore up its economy is to help Californians stay in their homes - and Governor Schwarzenegger is presenting a plan to do just that. Stemming the increase in foreclosures will help save jobs, businesses, and revenue for both the state and local governments. The Governor's plan is an aggressive effort to bring down foreclosure rates by helping borrowers and lenders modify existing home loans in ways that benefit both parties. Also, to prevent another mortgage crisis in the future, the Governor is prescribing changes to the way mortgages are brokered and originated to make lenders more accountable, guard against risky mortgages, and prevent unsustainable bubbles from ever arising again.

Keeping Californians In Their Homes Today:

Keeping families in their homes is the single most powerful action we can take for our ailing economy – and our economy demands we take that action now. Working to help California families to stay in their homes will curtail an excessive downward spiral of home prices, free up cash for other expenditures, improve the fortunes of lenders and make an immediate positive impact on our economy.

- **California's housing prices rose too high during the bubble and now they threaten to fall too far, putting families, communities, businesses and governments in jeopardy.**
- Stemming the foreclosure rate will curb job losses and help maintain vital property tax revenues for local governments.
- Reducing foreclosures will stabilize neighborhoods and curtail negative effects on nearby homes. Because when your neighbor is foreclosed, your home's value plummets too.
- Successfully modifying loans allows homeowners to ride out today's depressed prices and lenders to reap a better return.

The Governor's plan improves upon other foreclosure-relief programs by incentivizing loan modifications. To reduce foreclosures and encourage loan modifications, the Governor proposes:

- A 90-day stay of the foreclosure process for each owner-occupied home subject to a first mortgage on which a Notice of Default has been filed.
- A "Safe Harbor" under which lenders will be able to exempt themselves from the 90-day stay procedure if they provide evidence to the state that the lenders have an aggressive modification program in place. An "aggressive modification program" is one designed to keep borrowers in their homes where doing so will ultimately bring investors a better return than simply foreclosing and selling at a loss.
  - **Loan modification Model:** modifications will be based on a 38% housing debt-to-income ratio so that the modified loan is sustainable for the homeowner. The lenders can achieve that 38% level by invoking some or all of the following modification plans:
    (1) reducing the interest rate to a lower rate for five years or more; e.g., to a rate as low as 3%;
    (2) increasing the amortization of the loan to 40 years from the start of the amortization period; and
    (3) deferring some amount of the unpaid principal balance to the end of the loan term, so that the borrower will repay that amount upon refinancing or sale of the property.
  - **These actions will reduce monthly payments by 25-30%**

Fighting for emergency economic relief dollars to help keep Californians in their homes. Additionally, the Governor will continue to advocate that the federal government use a portion of the $700 billion Troubled Assets Relief Program to buy up and modify troubled home loans or to guarantee modified home loans.

A Summit on Housing:

- The Governor will also convene a housing summit to further craft modification and foreclosure abatement solutions.

Preventing Another Mortgage Crisis:

The Governor's plan ensures more responsible lending to help prevent Californians from ever again being victimized by unsustainable loans. In order to prevent a future mortgage crisis, the Governor prescribes a set of proposals, including:

- The state (Department of Real Estate and Department of Corporations) will now be able to enforce federal laws and regulations such as the Truth in Lending Act and others, and to discipline real estate licensees who violate those laws and regulations.
- Lending practices will be reformed to protect borrowers by 1) expanding fiduciary duties for mortgage brokers so that borrowers can be assured they are getting a loan that suits their circumstances, and 2) penalizing lenders who make false or misleading statements.
- Licensing requirements for loan originators will be increased and standardized.
- California will contribute to a national database for the public to access license status and disciplinary records of all loan originators to prevent dishonest originators from victimizing consumers.
- Pre-counseling interviews will be required for borrowers entering into risky "non-traditional" mortgages, as defined by the federal government, to ensure they understand and accept the terms to which they are agreeing.

The Governor's mortgage plan also includes:

- Urging the federal government to require loan originators to retain a portion of the loan risk to encourage sound underwriting of loans.
- Encouraging the federal government to promote the use of "covered bonds" which allow lenders to securitize loans but require them to retain those assets on their balance sheets.

This Prescription Builds On The Governor's Previous Actions To Help Stabilize California's Housing Market

- Signed legislation to help protect homeowners by requiring a mortgage holder to provide a 30-day notice to a borrower prior to filing any default notice leading to the foreclosure. The new law also provides tenants of foreclosed properties a minimum of 60 days notice to move and requires holders of foreclosed properties to maintain the property.
- Announced an agreement with major loan servicers to streamline the loan modification process for subprime borrowers living in their homes.
- Launched a $1.2 million public awareness campaign to help educate homeowners about options that can help them avoid losing their homes to foreclosures.
- Established the Interdepartmental Task Force on Non-traditional Mortgages to ensure a comprehensive and coordinated approach to the issues raised by subprime loans.
- Announced $5.6 million to help mortgage and banking industry workers laid off as a result of the subprime crisis make career transitions to high-demand jobs in other industries.
- Joined the OneCalifornia Foundation to announce a bridge loan fund for homeowners facing foreclosure in Oakland.
- Awarded $8 million to community based mortgage counseling providers around the state to help avoid foreclosures.